

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 25, 2019, BOARD MEETING**

MEMBERS PRESENT: Brent Sanford, Lt. Governor, Chair
Rob Lech, TFFR Board, Vice Chair
Troy Seibel, PERS Board, Parliamentarian
Jon Godfread, Insurance Commissioner
Toni Gumeringer, TFFR Board
Keith Kempenich, Legacy/Budget Stab. Adv. Board
Bryan Klipfel, Director of WSI
Adam Miller, PERS Board
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer
Jodi Smith, Commissioner of Trust Lands
Yvonne Smith, PERS Board

PRESENT: Amy Carlson, Investment Acct
Eric Chin, Senior Investment Officer
Connie Flanagan, Chief Financial Officer
Bonnie Heit, Admin Svs Suprv
David Hunter, Exec Dir/CIO
Sara Sauter, Suprv of Internal Audit
Darren Schulz, Dep CIO
Susan Walcker, Senior Financial Acct

GUESTS: Michael Jaje, Atlanta Capital
Anders Odegaard, Attorney General Counsel
Keith Read, Cerberus
Chip Reed, Atlanta Capital
Bryan Reinhardt, PERS
Daniel Wolf, Cerberus

CALL TO ORDER:

Lt. Governor Sanford, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, October 25, 2019, at the State Capitol, Ft. Union Room, Bismarck, ND.

AGENDA:

The Board considered the agenda for the October 25, 2019, meeting,

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE OCTOBER 25, 2019, MEETING.

AYES: TREASURER SCHMIDT, MS. GUMERINGER, COMMISSIONER GODFREAD, MR. KLIPFEL, COMMISSIONER SMITH, MS. SMITH, DR. LECH, MR. MILLER, MR. SEIBEL, MR. OLSON, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO APPROVE THE SEPTEMBER 27, 2019, MINUTES AS DISTRIBUTED.

AYES: MS. SMITH, MR. MILLER, MR. OLSON, MS. GUMERINGER, DR. LECH, MR. SEIBEL, MR. KLIPFEL, COMMISSIONER GODFREAD, COMMISSIONER SMITH, TREASURER SCHMIDT, AND LT. GOVERNOR SANFORD
 NAYS: NONE
 MOTION CARRIED

INVESTMENTS:

Public Equity - Mr. Schulz provided an update on the US small cap equity strategy. RIO investment personnel are focusing their efforts on replicating mandates across all three investment pools when appropriate. Mr. Schulz reviewed Atlanta Capital Management Company's mandate and recommended expanding their role to include the Insurance Pool and Legacy Fund. By expanding the pools, staff also recommended a transition of the PIMCO Enhanced RAFI US Small Strategy to Atlanta Capital Management.

Atlanta Capital Management representatives reviewed the SIB's portfolio currently under their management. After the review and further discussion on the recommendation,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF'S RECOMMENDATION AND EXPAND THE ATLANTA CAPITAL MANAGEMENT COMPANY'S LLC HIGH QUALITY SMALL CAP VEHICLE TO ALSO INCLUDE THE INSURANCE TRUST AND LEGACY FUND ALONG WITH THE EXISTING PENSION TRUST. THIS ACTION WOULD TRANSITION THE PIMCO ENHANCED RAFI US SMALL STRATEGY TO ATLANTA.

AYES: TREASURER SCHMIDT, MR. SEIBEL, MR. OLSON, COMMISSIONER SMITH, DR. LECH, MR. MILLER, COMMISSIONER GODFREAD, MS. GUMERINGER, MS. SMITH, MR. KLIPFEL, AND LT. GOVERNOR SANFORD
 NAYS: NONE
 MOTION CARRIED

Fixed Income - Mr. Chin reviewed the SIB's current direct lending mandates with Ares and Cerberus. As of September 30, 2019, the commitments are nearly fully drawn. As a result of the growth in assets in the Pension Pool and the Legacy Fund, RIO investment personnel recommend increasing the commitment to the direct lending strategies to maintain target percent allocations in the Pension Pool and the Legacy Fund.

Cerberus representatives reviewed the SIB's portfolio currently under their management. After the review and further discussion on the recommendation,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. KLIPFEL AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND EXPAND THE COMMITMENT TO THE CERBERUS ND PRIVATE CREDIT FUND, LLC BY UP TO \$100 MILLION.

AYES: COMMISSIONER SMITH, TREASURER SCHMIDT, MR. MILLER, COMMISSIONER GODFREAD, MR. OLSON, MR. KLIPFEL, MS. GUMERINGER, MR. SEIBEL, DR. LECH, MS. SMITH, AND LT. GOVERNOR SANFORD
 NAYS: NONE
 MOTION CARRIED

GOVERNANCE/EDUCATION:

RIO vs Ends - Mr. Hunter reviewed RIO versus governance policy Ends for the period ending June 30, 2019.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE RIO VS ENDS REPORT FOR THE PERIOD ENDING JUNE 30, 2019.

AYES: MS. GUMERINGER, COMMISSIONER SMITH, MS. SMITH, MR. KLIPFEL, TREASURER SCHMIDT, COMMISSIONER GODFREAD, MR. OLSON, MR. SEIBEL, MR. MILLER, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: DR. LECH

Investment Fees/Expenses - Mr. Hunter reviewed investment fees and expenses for the period ending June 30, 2019. Over the last 5 years, the vast majority of the SIB's clients outperformed their approved policy benchmarks earning at least 0.50% of excess return, while investment fees and expenses remained at or below 0.50% per annum since 2015. Based on \$10 billion of assets under management, a 0.20% decline in fees between fiscal 2013 and fiscal 2019 translated into \$20 million of annual fee savings for SIB clients.

IT WAS MOVED BY MS. SMITH AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE FEES AND EXPENSES REPORT.

AYES: MR. OLSON, MR. SEIBEL, COMMISSIONER SMITH, MS. GUMERINGER, COMMISSIONER GODFREAD, MS. SMITH, MR. MILLER, TREASURER SCHMIDT, MR. KLIPFEL, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: DR. LECH

Client Satisfaction Report - Ms. Sauter reviewed the 2019 SIB client satisfaction survey results. Overall rating was 3.62 percent based on a 4.0 scale. Average for the last three years has been 3.6%. Fifteen evaluation forms were submitted with 11 responses received.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO ACCEPT THE CLIENT SATISFACTION SURVEY RESULTS.

AYES: COMMISSIONER GODFREAD, MR. KLIPFEL, MS. GUMERINGER, MS. SMITH, MR. SEIBEL, MR. MILLER, MR. OLSON, TREASURER SCHMIDT, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, DR. LECH

Audit Committee Report - Ms. Sauter reviewed Audit Committee activities for the period of July 1, 2018 - June 30, 2019. The following activities were completed; agency-wide risk assessment, four Teachers' Fund for Retirement (TFFR) employer reporting reviews, Benefit Payment Cost Efficiency Audit, TFFR Refund/Purchase Audit, Salary Verification Project, and Executive Limitations Audit. Internal Audit also provided assistance to CliftonLarsonAllen during the 2018 financial audit of RIO as well as the GASB 68 Census Data audits. The Audit Committee received the results of the financial audit of RIO for the fiscal year ended June 30, 2018. The Audit Committee also reviewed the financial audit plan for RIO for the fiscal year ended June 30, 2019. The Audit Committee approved a workplan and budgeted hours for fiscal year July 1, 2018 - June 30, 2019.

Ms. Sauter also reviewed the workplan for the period of July 1, 2019 - June 30, 2020. The workplan, as outlined at the SIB October 25, 2019, meeting, allocates 62.5% of time to the TFFR program and 37.5% to the SIB and RIO programs. The workplan represents what Internal Audit anticipates will be accomplished in the upcoming year, however needs and priorities may change and the workplan may require adjustments.

Ms. Sauter also reviewed an investment due diligence audit which was completed as of July 31, 2019. Internal Audit developed an audit program to review the ongoing due diligence process for the SIB investment managers. Ms. Sauter handed out a report detailing the ongoing due diligence being conducted by RIO investment personnel on current SIB managers as well as prospects.

IT WAS MOVED BY MS. SMITH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT FOR THE PERIOD OF JULY 1, 2018 - JUNE 30, 2019.

AYES: MS. GUMERINGER, MS. SMITH, TREASURER SCHMIDT, COMMISSIONER GODFREAD, MR. OLSON, MR. SEIBEL, MR. MILLER, MR. KLIPFEL, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, DR. LECH

Governance Review - Mr. Hunter reviewed SIB Governance Manual Section E - Investments. Discussion followed on proxy voting. The SIB voiced concerns on oversight of third party voting and the ramifications to the State of North Dakota. Mr. Hunter will follow-up and provide additional options for over-seeing proxy voting. Mr. Hunter and Commissioner Smith will be working together to revise the SIB and Dept. of Trust Land proxy voting policies so as to best serve the interests of the State of North Dakota. After discussion,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SECOND READING OF ENDS (EXHIBIT D-1/ACCEPTING THE ND OFFICE OF THE ATTORNEY GENERAL AS A CLIENT).

AYES: MR. OLSON, MS. GUMERINGER, MR. MILLER, MR. SEIBEL, MR. KLIPFEL, COMMISSIONER GODFREAD, TREASURER SCHMIDT, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: MS. SMITH, COMMISSIONER SMITH, AND DR. LECH

Legacy Fund Earnings Committee - Mr. Hunter will be joining the Legacy Fund Earnings Committee at their next meetings, November 12-13, 2019, in Fargo, ND.

MONITORING:

The following monitoring reports for the period of June 30, 2019 and September 30, 2019 were presented for the SIB's acceptance - Executive Limitations/Staff Relations, Budget/Financial Conditions, Investment Program, Retirement Program, and Watch List (LSV since May 24, 2019).

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE QUARTERLY MONITORING REPORTS FOR THE PERIOD OF JUNE 30, 2019, AND SEPTEMBER 30, 2019.

AYES: MR. KLIPFEL, MR. OLSON, COMMISSIONER GODFREAD, TREASURER SCHMIDT, MR. SEIBEL, MR. MILLER, MS. GUMERINGER, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, DR. LECH, AND MS. SMITH

OTHER:

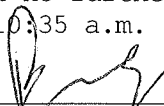
The next meeting of the Securities Litigation Committee is scheduled for November 7, 2019, at 3:00 p.m. at the Retirement and Investment Office.

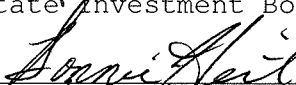
The next meeting of the SIB Audit Committee is scheduled for November 13, 2019, at 3:00 p.m. at the Retirement and Investment Office.

The next meeting of the SIB for regular business has been scheduled for November 22, 2019, at 8:30 a.m., at the State Capitol, Ft. Union Room.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 10:35 a.m.



Lt. Governor Sanford, Chair
State Investment Board

Bonnie Heit
Recorder

